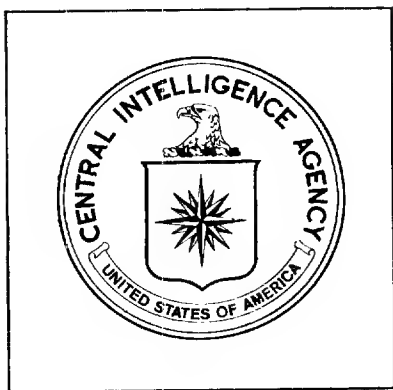


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No. 0112-75

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WESTERN EUROPE – CANADA – INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Swedish Aid to Portugal

Sweden and Portugal signed an aid agreement for the first time on January 9 at the conclusion of a three-day visit by a Swedish delegation. Sweden also agreed to provide 90 tons of paper to be used for election ballots.

The Swedes will provide technical assistance in the fields of telecommunications, housing, education, and the cooperative movement. Final decisions on the extent of future aid will be made either in Lisbon or Stockholm within a month, according to a Foreign Ministry official.

The Swedish visit was a follow-up to the visit last October by a Nordic delegation of Social Democrats headed by Swedish Prime Minister Palme. This latest delegation was exclusively Swedish and represented the government rather than the Social Democratic Party. The Swedes are giving priority to aid to Portugal in order to bolster the efforts of the Social Democrats against the Communists, who are well organized and financed. (Confidential)

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New Cypriot Cabinet Composed of Ministers
Loyal to Makarios

President Makarios on January 14 announced the formation of a new cabinet made up of men who have proved their loyalty to him in the past.

Five of the nine ministers held cabinet portfolios at the time of the coup in July, while two others were important bureaucrats. The other two are holdovers from the interim Clerides administration, but they do not owe their political allegiance to Clerides, who is now a potential rival to Makarios for the presidency.

Makarios had earlier considered forming a government of national unity, composed of representatives of all political groups, including the left and right extremists. He abandoned the idea after he could not get agreement on appointments, particularly to the important ministries of foreign affairs and interior.

Having excluded all but his supporters from the cabinet, Makarios will probably seek regular consultations with political party leaders in order to maintain a semblance of Greek Cypriot unity.

According to [REDACTED] Makarios appears to be less secure in his position since his return to Cyprus last month. He no longer trusts many of his old friends and appears more worried about the activities of his political enemies.

Makarios, according to [REDACTED] is concerned about the infiltration of his opponents into the government during his absence, but he is reluctant to purge them for fear that he may jeopardize the

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4 | tenuous unity of Greek Cypriots and his own position. Makarios is particularly suspicious of Clerides and will probably try to take credit for any successes in the intercommunal talks, which Clerides is conducting with Turkish Cypriot leader Denktash.

6 | Clerides and Denktash began preliminary discussions of political issues and will meet again later this week to discuss reopening Nicosia airport and the island's seaports, particularly Famagusta. The Greek Cypriots, 80 percent of the island's population, are likely to call for proportional representation of the two communities in the operation of the airport, under UN auspices, and joint control of Famagusta port.

2 | The Turkish Cypriots are likely to insist on equal representation in the operation of the airport. They may also offer the use of Famagusta port to Greek Cypriots, but they are not likely to consent to Greek Cypriot participation in its operation.

6 | The Turkish Cypriot side will be under pressure to make concessions because of the impending end of US military aid to Turkey on February 5. Once the airport and seaport issues are settled, the negotiators will begin to talk about the powers of the central government in the proposed federation. Clerides and Denktash agreed yesterday to set up a sub-committee to discuss remaining humanitarian issues.

5 | The British, in the meantime, are apparently planning to begin soon the evacuation to Turkey of Turkish Cypriots living in the sovereign British base area in the south of Cyprus. Turkish and Turkish Cypriot leaders had earlier voiced concern about the Turkish Cypriots on the base. They will now be under pressure to reciprocate by responding to the humanitarian concerns of Greek Cypriots.
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Labor Issue Threatens Portuguese Government

1 | The Portuguese Armed Forces Movement is attempting to establish a compromise among the three parties of the governing coalition by granting concessions to moderates on the proposed economic plan while supporting the Communist concept of a single labor confederation.

2 | The Popular Democrats and the Socialists had threatened to leave the government over the unitary labor law which they feel will perpetuate Communist control of the labor movement. The Communists organized a massive rally last night to demonstrate "popular support" for their position, and the Socialists were planning a counter-demonstration today. All of this activity has led to speculation, but no hard evidence, that a leftist takeover or a right-wing coup may be imminent.

1 | The Movement apparently is trying to reduce the political tensions that have been building during the past week. The cabinet meeting scheduled to debate the economic and labor plans has been advanced from Friday to today.

2 | There is no indication of how the Socialists and Popular Democrats will react to the trade-off proposal by the Movement. The alternative to the compromise--leaving the Communists in the government by themselves--is not an attractive option either to the Movement or the two coalition partners.

2 | It has become increasingly apparent that the Communists will not surrender the advantage they now have in the labor movement and are prepared to carry the debate over the unitary labor law as far as necessary. It is possible that they would

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welcome the political disarray that would accompany such a contest because it almost certainly would cause a postponement of the election that is now expected in April. The Communists have been searching for ways to delay the elections until they can build a more popular base.
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A Risky New Year's Agenda for Italian
Prime Minister Moro

Political activity is resuming in Italy after the holiday respite, and a number of emerging issues could strain the cohesion of the two-month old Moro government.

Among the issues causing controversy are:

- labor's drive for higher benefits and wages;
- a pending parliamentary vote on reform of the state radio-TV network;
- the consolidation of various investigations of right-wing coup plotting into one inquiry under the Rome judiciary--a development which the left claims is a prelude to a cover-up;
- proposed changes in the organization of police forces controlled by the interior ministry. Leftists are pushing to grant police the right to organize into trade unions;
- parliamentary discussion of a Socialist proposal to legalize abortion in Italy. Pressure to take this step has increased since the French did so recently, and the battle lines are the same as in the divorce referendum last year: The Christian Democrats and Neo-fascists oppose abortion while the other parties, including the Communists, favor legalization.

The labor question and the radio-TV reform package, however, provide the most immediate and

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dangerous problems for Moro. A new round of negotiations is under way this week between the government and the labor organization that represents all of Italy's major unions. Labor's cooperation is essential to the success of Moro's economic programs, but preliminary talks with the unions have not gone well. To offset the effects of inflation, labor wants higher pension benefits and steep increases in wage adjustments linked to the cost-of-living index. The government is inclined to make some concessions but not enough to satisfy the unions; another day-long general strike is scheduled for January 23.

The Republican Party, which has joined Moro's Christian Democrats in the governing coalition, is most adamant in resisting labor's demands. The Socialists, whose parliamentary support provides the government's majority, are backing the unions' proposals.

A key factor in the outcome of labor-government discussions will be the attitude of the Communist Party, whose influence is predominant in labor circles. Since the revival of the center-left coalition in mid-1973, the Communists have encouraged labor moderation. A recent debate in the party's theoretical journal, Rinascita, suggests, however, that some Communist leaders are arguing that greater labor militancy is required to force the government to give Communists a direct voice in national policymaking.

The reform of the state radio-TV network was put into effect two months ago by a decree law which must be approved in parliament by January 29 in order to remain on the books. The reorganization weakened traditional Christian Democratic control over the radio-TV network and gave the other parties, including the Communists, a larger say in communications policy.

Right-wing Christian Democrats are unhappy with the changes, and Moro is worried that they

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may support an effort by the neo-fascist Italian Social Movement--Italy's fourth largest party--to block passage of the law in parliament. This could put the government in the uncomfortable position of either letting the reform lapse temporarily or relying on Communist votes to secure its passage.

Either course would increase tension among the governing parties. If the law is not approved, the Socialists--who are the chief beneficiaries among the center-left parties--will protest. If Communist votes provide the margin for passage, the Social Democrats--who were largely responsible for the fall of the last government--will have a fresh example to bolster their argument that the center-left alliance is too strongly influenced by the Communists. (Confidential)

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